Submission to the Manitoba Minimum Wage Board

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I am pleased to appear before the Minimum Wage Board on behalf of the Canadian Centre for Policy Alternatives (CCPA). The CCPA is a non-profit, non-partisan research institute that was founded two decades ago. The Manitoba branch of the CCPA was opened in 1997.

The CCPA has published a number of studies into the effect of the minimum wage in Canada. Two of these, by Goldberg and Green (1999) and Black with Shaw (1997), are appended to this submission.

The Board has invited submissions dealing with a number of questions, including the following:

- Should the minimum wage be increased in Manitoba?;
- If so, to what level?;
- Should there be lower minimum wages for certain groups of employees?;
- Should there be an automatic mechanism for the regular establishment of the minimum wage?

In this submission I argue that:

- The historical roots of the minimum wage are as a measure to reduce poverty, inequality, and exploitation. We should not lose sight of these original intentions.

- The minimum wage should be increased immediately to $7.00, to be followed by two increases of 50 cents each, six months and one year after the initial hike, to a new total of $8.00.

- After that point, the minimum wage should be indexed to some reasonable measure of the poverty line, and adjusted automatically annually.

- The minimum wage is a useful, if limited, anti-poverty tool. It is limited one, in that it only affects poor people who have some connection to the labour force, but Manitoba's current low unemployment levels mean that an unusually high number of poor people do have that connection, and so they would benefit from an increase in the minimum wage.

- Opponents of a strong minimum wage argue that it is a "job killer." While this may superficially appear to be a reasonable argument, solid recent evidence demonstrates that the minimum wage has only a marginal effect on employment.

Introduction

In 1918, Manitoba became one of the first two provinces to introduce a minimum wage. Initially it covered only women, and acted as a "floor" under wages, to prevent employers from paying overly exploitative low wages to desperate workers.

It is useful to remember this historical reason behind the introduction of the minimum wage: the protection of workers, particularly the most vulnerable. Indeed, the minimum has always been, and, as we shall see, continues to be, a program that disproportionately affects women. In other words, the minimum wage has been, since its inception, a tool for promoting greater equality and social justice.

The minimum wage should continue to be viewed in these terms. It is a measure that reduces poverty and reduces income inequality – although a weak minimum wage undermines both of these benefits.

While the minimum wage is in some ways a complex public policy issue, it is also an issue of what we as a community deem to be the right thing to do. Just as we legislate against slavery and child labour because we consider them to be morally unacceptable, we use the minimum wage to establish a social benchmark.

If a person does work that is of value to her employer and to society, she should be adequately paid for it. At the very least, anyone who works full-time should earn enough to live with dignity and participate in their community. That is to say, the minimum wage should be a living wage. It should also be increased along with increases to the cost of living.

Should the minimum wage be increased in Manitoba?

In 1987, Manitoba's minimum wage was best in the country. While its level has increased in absolute terms over that time, from $4.70 to its current level of $6.25, relative to other provinces and other key variables it has fallen steadily since its level of 13 years ago.

The minimum wage in Manitoba at its current level does not allow a person to live above the poverty line. At $6.25 per hour, multiplied by 2,080 hours (a full-time year), a minimum wage earner takes home only $13,000 per year. This is only approximately 70% of the Statistics Canada Urban Low-Income Cut-off line (1992 based for cities of 500,000) for a single person ($18,180), and only approximately 38% for the LICO for a family of four.

It is time for a significant increase.

What level should it be raised to?

Since, as I have argued above, the minimum wage is best thought of as an anti-poverty measure, it should be set in relation to the poverty line; it should be high enough that an individual working full time earns an income above the poverty line.

There is debate about the best way to measure the poverty line. While Statistics Canada's Low-Income Cutoff is not designed explicitly as a poverty line, it is a very useful indicator (for a detailed discussion of the merits of different ways to calculate the poverty line, see Jim Silver (ed.), *Solutions that Work: Fighting Poverty in Winnipeg*. CCPA/Fernwood: 2000).

The minimum wage required by a single person in Winnipeg employed full time (40 hours per week), full year to reach the poverty line would be $8.74.

Another reasonable guideline for setting the minimum wage is as a percentage of average income. The Manitoba Federation of Labour's position on the minimum wage has long been that it should be based on 60% of the average weekly wage. As of December, 2000, that would be $8.49 per hour.

Clearly, there are strong cases to be made for each of these different levels. The general point is that, if the minimum wage is going to be a meaningful floor that prevents unduly exploitative wages, and high enough to allow a single person employed full time to earn enough to live outside of poverty, it should be at least $8.00 per hour.

For some businesses, particularly those with a large number of low-wage workers, such a large hike all at once would be difficult to absorb, and perhaps even seen to be punitive. Therefore, I recommend the following:

- The minimum wage in Manitoba should be raised to $7.00 immediately;

- It should be raised to $7.50 six months later, and then by another 50 cents to $8.00 one year after the initial increase. Subsequently it should be adjusted annually and regularly to account for increases in the cost of living.

This recommendation is a reasonable plan to get the minimum wage to an appropriate level. It is far from the only one, and I submit it here simply as an example of what could be done.

Should there be an automatic mechanism for the regular establishment of the minimum wage?

Once the minimum wage reaches a level of $8.00 – that is to say, within a reasonable distance of the poverty line – future increases should be indexed to one of: Statistics Canada's LICO or 60% of the average weekly wage, pro-rated to an hourly basis. The Board should meet again to determine which of these indicators would be used. While

each has its advantages, choosing one over the others at this time would be putting the cart before the horse. No one could reasonably argue that the wage at its current level is anything like a living wage, and so the first priority must be a significant immediate increase.

There are a number of advantages, both social and economic, to having criteria to automatically set and increase the minimum wage. Workers and businesses would both know in advance what the rules are and when an increase is due.

Regular increases, with the wage indexed to some measure of the poverty line, would shield the minimum wage from erosion by inflation and from the vicissitudes of electoral politics. Low-wage workers should not suffer simply because we are in a period between elections, or because of the party that is in power.

While I recommend that the minimum wage be indexed to one of a number of indicators, I also believe that it is important that the level of the minimum wage be reviewed by the Board regularly. The minimum wage is an important issue for the province, one that has been neglected for too long, and should not be put on a shelf, even if regular increases are implemented.

Who would be affected if the minimum wage were raised?

Opponents of an increase sometimes suggest that most people earning the minimum wage are just teenagers or young adults, and so don't need or deserve a wage increase. This is a specious argument. For one thing, it is similar to an argument that was once made about women workers – that it was only fair they were underpaid for their labour because their husbands could support them.

All workers deserve to be paid fairly for the labour, whatever their circumstances.

While a majority of minimum wage workers in Manitoba are under 24, a majority are also a student at some time during the year. Many minimum wage workers use their earnings to fund their university or college education – which is something that should be supported, not discouraged with a legislated low wage.

In any case, the stereotype that the typical minimum wage earner is a teenager from a middle- or upper-class family, living at home is inaccurate.

In Canada, over 60% of minimum wage earners are adults (Goldberg and Green, Black with Shaw). Two-thirds are women.

In Manitoba, in excess of 80% workers at or near the minimum wage are 17 or older. The only current statistics I have for Manitoba include an age breakdown with a category of 17-19 years. However, if distribute these evenly, the results are consistent with the Canadian average.

In recent years, the average level of educational attainment of minimum wage earners has climbed. From the late 1980s to the late 1990s, there was a significant decrease in the percentage of minimum wage workers with less than high school graduation (Fortin and Lexmiex, qtd in Goldberg and Green). In other words, minimum wage workers are not, contrary to public perception, high-school drop-outs. In Manitoba, approximately half of workers at or near the minimum wage graduated from high school, but when we remove those who are simply too young to have graduated from high school, and are still attending, the portion must be much larger.

The number of people earning exactly the minimum wage is relatively small. In 2000, 4.1% of all employed workers in Manitoba were paid the minimum wage. However, when we include those who work for wages near the minimum wage, the number of people affected by an increase grows. Figures from the Manitoba Department of Labour show that more than 7% of employed workers earn within 10% of the minimum wage, and thus would directly benefit from an improvement.

Raising the minimum wage "raises the floor" on wages. Goldberg and Green calculate that an increase in the minimum wage leads to a increase in the total amount of money going to low-wage earners (19). Card and Krueger describe a "ripple effect" caused by increases in the minimum wage, in which employees who were initially earning slightly above the minimum wage also receive a wage increase after a minimum wage increase.

Bernstein and Schmitt found similar results in the United States. In fact, study after study has reached the same conclusion: the minimum wage lifts wages in the low-wage labour market.

Does a strong minimum wage hurt employment?

The most common argument against a strong minimum wage is the claim it is a powerful "job killer" that hurts the very people it is supposed to help by pricing their labour out of the market.

The idea that minimum wages hurt employment has received a good deal of support over the years. Until a decade ago, it seems to have been widely accepted by economists for a generation. This argument is based on a simple model of supply and demand. It says that each worker is "worth" a certain amount to her employer. If the minimum wage exceeds that figure, employing that worker will no longer be affordable. If the minimum wage is set above this "market wage," companies will use fewer low-wage workers, and will instead shift toward using more-skilled workers. Thus, low-wage workers will end up as the big losers out of the deal.

If we imagine the full output of the economy as a pie, the minimum wage can do two things. It can change the size of the overall pie, and it can change the size of the individual slice that different groups receive.

Opponents of a strong minimum wage argue that it reduces both the overall size of the pie and the slice low-wage workers receive.

Sounds simple enough, even elegant.

But the empirical evidence shows that this argument is not so much simple as simplistic. In reality, the labour market is much more complex than that. Employers avoid some of the costs of a wage increase through higher productivity, lower recruiting and training costs, decreased absenteeism, and improved worker morale.

Economic models that look specifically at low-wage labour markets take these things into account, and help explain why there is little evidence of job loss associated with minimum wage increases.

In 1995 Princeton economists David Card and Alan Krueger published the results of five years of in-depth empirical research. Their main findings were that minimum wage increases in the United States in the early 1990s did not have the negative employment effects that the job-killer model would predict.

A major study published by the Canadian Centre for Policy Alternatives in 1999 compared Statistics Canada data from Canada's four largest provinces. The authors found that the immediate impact of a change in the minimum wage on employment levels is statistically insignificant for all groups except for young men, for whom there is a small negative effect.

The methodology employed by Goldberg and Green is very sophisticated and compelling, and I urge the Board to review their study, which is appended to this submission.

After reviewing the literature for this submission, I conclude that in recent scholarship the debate over the purported job-loss effect is a debate over whether this effect is very small, or nothing at all (some studies have even found a small increase in employment). While this debate may be an interesting one for economists, from the perspective of a government looking to help the working poor, it is a distinction without a difference. Even if you were to accept the most negative findings from the research, you simply could not avoid the conclusion that the benefits of the increase far outweigh the costs.

Some have argued that if there is any negative effect at all to a minimum wage increase, we should not do it. This is nonsense. Every policy has costs and benefits. The challenge is to weigh the costs and the benefits, and if when we do so with a minimum wage increase, it is clear that any potential costs to employment are dwarfed by benefits in the form of social equality.

An increase in the minimum wage provides a stronger incentive for some people to enter the labour market. This is significant because an increase in people looking for work translates into a higher unemployment rate (as well as a higher labour force participation

rate). In this way, using unemployment levels to measure the job-loss effect of an increase likely *over-estimates* that effect.

Is the minimum wage a useful anti-poverty tool?

In a word, yes. The evidence unequivocally supports the view that increases in the minimum wage, by increasing the earnings of low-income workers without diminishing their employment opportunities, have historically helped to lower poverty rates (see, for example, Berstein and Schmitt; Card and Krueger; Bernstein (1999)).

Of course, the minimum wage is a limited anti-poverty tool, in that it only affects poor people who have some connection to the labour force. However, Manitoba's current low unemployment levels mean that an unusually high number of poor people do have that connection, and so they would benefit from an increase in the minimum wage.

Opponents of an increase sometimes argue that it is poorly targeted, and provides relatively too much benefit to middle- and high-income families. Again, the evidence does not support their case. Bernstein and Schmitt, for example, calculated that 63% of the gains from an increase of $1.00 in the U.S. minimum wage would be expected to accrue to working households in the bottom 40% of the income distribution (2).

Goldberg and Green show that in Canada minimum wage earners are "disproportionately represented among low-income families. Thus, increases in the minimum wage will disproportionately benefit low-income families" (6).

How mobile are minimum wage businesses?

No doubt the Board will hear presentations from business owners – especially small business owners – who threaten to move their business out of the province if the minimum wage is raised significantly. These claims should be regarded with skepticism. The evidence suggests that a mass exodus of businesses is highly unlikely.

In Manitoba, nearly 70% of minimum wage or near-minimum wage workers are employed in the retail, accommodation, and food services industries. These industries depend on local markets are far from highly mobile. A restaurant or hotel cannot up and move to a jurisdiction with a lower minimum wage. In contrast, manufacturing, which is relatively more mobile, employs only 6% of workers at or near the minimum wage.

Should there be a lower minimum wage for certain employee groups?

Any move toward a differential minimum wage, or "tipping wage," would be a serious betrayal of the original, core purpose of the minimum wage. It would lead to inequity, and would be open to no end of abuse.

The practical problems with a "tipping wage" are so numerous, serious, and obvious to anyone who has any experience working in the service sector that it is, quite frankly, difficult to believe that the idea is even being seriously considered.

CCPA oversaw a study earlier this year, in which two researchers surveyed 75 Manitobans working at or near the minimum wage. Even this modest sample included many examples of the why a tipping wage would be unjust and unworkable (McKenzie and Snyder).

First, there is no one thing that could be considered a "tipping job," and nothing close to a standard level of tips received. In fact, there was huge diversity from job to job. Some workers earned as little as one dollar per shift, some more than $100. Waiters earn more tips than do cooks, bartenders more than dishwashers. In some workplaces managers take a share of tips.

Proponents of a tipping wage sometimes say that there are waiters at high-end who earn the minimum wage but take home $40,000 per year in tips, and so could well afford a lower minimum wage. That is a remarkablye disingenuous argument. If such workers actually do exist, they must be but a tiny minority of minimum wage workers. More importantly, since tips are usually a percentage of the total bill, any restaurant or bar in which servers earn very high tips must have very high profit margins. These establishments are already getting a great deal – high-profit food, with labour costs heavily subsidized by their customers. It is difficult to imagine why the government would enact such a destructive and inequitable change in policy simply to help the province's fanciest and most profitable restaurants save perhaps five or ten dollars per worker per day.

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